

**CITY OF MANISTEE
OIL AND GAS INVESTMENT BOARD
MEETING OF APRIL 15, 2016**

There will be a meeting of the Oil and Gas Investment Board held on Friday, April 15, 2016 at 12:00 p.m. in the Second Floor Conference Room, City Hall, 70 Maple Street, Manistee, Michigan 49660.

AGENDA

I. ROLL CALL.

II. OLD BUSINESS.

a.) None

III. NEW BUSINESS.

a.) Approval of Minutes from January 15, 2016

b.) Investment Advisor Update and Commentary

c.) Aztec Well Update

d.) Straight Talk Article

IV. PUBLIC COMMENT.

VI. ADJOURN.

c. Colleen Kenny, Chair
Eric Gustad, Council Representative
Ed Bradford, Vice-Chair
Doug Parkes
Steve Brower
Thad Taylor, City Manager
George Saylor, City Attorney
Woody Uible, Investment Advisor

OIL AND GAS INVESTMENT BOARD MINUTES OF JANUARY 15, 2016

The City of Manistee Oil and Gas Investment Board held a regular meeting on Friday, January 15, 2016 in the Second Floor Conference Room, City Hall, 70 Maple Street, Manistee, Michigan 49660. Meeting was called to order by Chair Colleen Kenny at 12:00 p.m.

MEMBERS PRESENT: Colleen Kenny, Steve Brower, Ed Bradford, Eric Gustad, Thad Taylor

MEMBERS ABSENT: Doug Parkes

OTHERS PRESENT: City Attorney George Saylor, Councilman Jim Smith

OLD BUSINESS

None.

NEW BUSINESS

Minutes - Minutes from the October 16, 2015 meeting were reviewed. **MOTION** by Ed Bradford, second by Steve Brower to accept the minutes and place them on file. All in favor - motion carried.

Investment Advisor Update and Commentary – Woody Uible and Troy Snider participated via conference call and presented the Investment Update as of December 31, 2015. Information in the report included Market Review, China's Slowdown, Fed Watch, Sovereign Yields, S&P Valuation above Historical Averages, Asset Allocation, Fixed Income Characteristics, Equity Sector Allocation, and Portfolio Performance. Numerous questions were responded to. Discussed the current market outlook; economic indicators are relatively good. This has been the longest economic recovery cycle on record.

Annual Spending Rule Calculation – Board discussed the spending rule calculation which includes the internal loans on a twelve quarter average. **MOTION** by Steve Brower, second by Eric Gustad to approve the annual spending rule calculation as of December 31, 2015 for the fiscal year budget 2016-2017; using the 4% spending rule in the amount of \$394,226. All in favor – motion carried.

Annual Review of Bylaws – **MOTION** by Eric Gustad, second by Steve Brower to accept the bylaws as presented; no changes are required. All voted in favor – motion carried.

Annual Review of Member Roster – Eric Gustad reported one change, the roster will be revised.

PUBLIC COMMENTS

None.

ADJOURNMENT / NEXT MEETING

Next regular meeting is scheduled for Friday, April 15, 2016 at 12 p.m. in the Second Floor Conference Room, City Hall.

MOTION to adjourn by Eric Gustad, second by Steve Brower at 12:40 p.m.

DRAFT - cl

Cynthia Lokovich, CAP-OM
Recording Secretary

- c. Manistee City Council
Board Members
Thad N. Taylor, City Manager
George Saylor, City Attorney



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Memo to: Oil & Gas Investment Board

From: Edward Bradford, CFO

EB 4/4/2016

Re: Aztec Producing Status Update

Date: April 4, 2016

Earlier this winter, Aztec Producing shut down operations of both their wells and their processing facility.

In discussion with the plant supervisor, John Ward, the owner closed the plant down because it had been losing money due to the low price of oil & gas. We have not received any direct correspondence regarding this from the owner.

It is likely, but not for sure, that the plant will be started up once the price of oil recovers.

This means that the City should receive a few royalty payments (since they lag the actual production by a few months) but then they will cease until production is restarted.

So far this fiscal year, we have received \$26,386 in royalties.

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STRAIGHT TALK: Bradford talks Oil and Gas Investment board history, functions, funds

Posted by Sean Bradley on April 3rd, 2016

MANISTEE — In the late 1970's and early 1980's, the City of Manistee heavily explored the oil and gas industry in Manistee County.

According to Manistee chief financial officer Ed Bradford, the city, at that time, was receiving income from oil and gas leases as well as royalties from oil and gas wells that had been drilled. He said in an email that council realized the money was a

unique resource and wanted to take action to protect it and make sure the funds would be used in a beneficial manner for residents then and in the future.

This notion created the Oil and Gas Investment Board via a city ordinance in 1981. The board is charged with overseeing the Oil and Gas Trust Fund.

During the 2015-16 fiscal year budget discussions, \$83,000 in funds from the board's Oil and Gas Trust Fund were allocated to pay for city street repairs.

Bradford answered question for the *News Advocate* via email about what the board's purpose is, what it does, the Oil and Gas Trust Fund and its contents, and more.



BRADFORD

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MNA: The City of Manistee Oil and Gas Investment Board is charged with overseeing the Oil and Gas Trust Fund, according to the city's website. What did the ordinance that was adopted do?

BRADFORD: The ordinance that was adopted did two things: First, it segregated the income received from the oil and gas activity into a separate account with a purpose and intent of "preservation of the principal of the oil, gas and related hydrocarbon revenues for the benefit of the Citizens of the City of Manistee". Second, it created an investment board to "manage, control, invest and reinvest" this money.

MNA: In what ways does the board oversee the Oil and Gas Trust Fund?

BRADFORD: The board's primary responsibility is investing the money in the oil and gas fund in accordance with the oil and gas investment policy. Prior to 2009, the board was limited by state law as to what investments it could make. At that time, the fund was exclusively invested in bank Certificates of Deposit (CDs) and a few government agency bonds and the board itself selected the investments.

In 2008, the city successfully lobbied the state Legislature to change the law to allow the city's Oil and Gas fund to be invested under a different set of rules, similar to how the Michigan Natural Resources Trust Fund is invested. This allowed for a wider range of investments including stocks and corporate bonds. Shortly thereafter the board selected an investment advisor, Bartlett, and began investing the oil and gas fund under the new rules.

Bartlett now invests the portfolio and periodically reports to the board. The board monitors the safety, soundness and performance of the portfolio and ensures that it is being invested in a prudent manner consistent with applicable policies and laws.

MNA: As of Dec. 31, 2015, the total amount in the Oil and Gas Trust Fund is \$9,309,047. How is this value determined? Is the \$9 million amount up, down or steady compared to years past?

BRADFORD: The value of the fund is the sum of all of the cash and investments held in the portfolio. The portfolio is

invested in securities whose value is subject to market fluctuations. Since 2009, the fund has seen a significant appreciation in its value due to the positive investment environment. Recently, the volatile market has led to a reduction in the portfolio value.

MNA: Where does money for the fund come from? How does the fund grow?

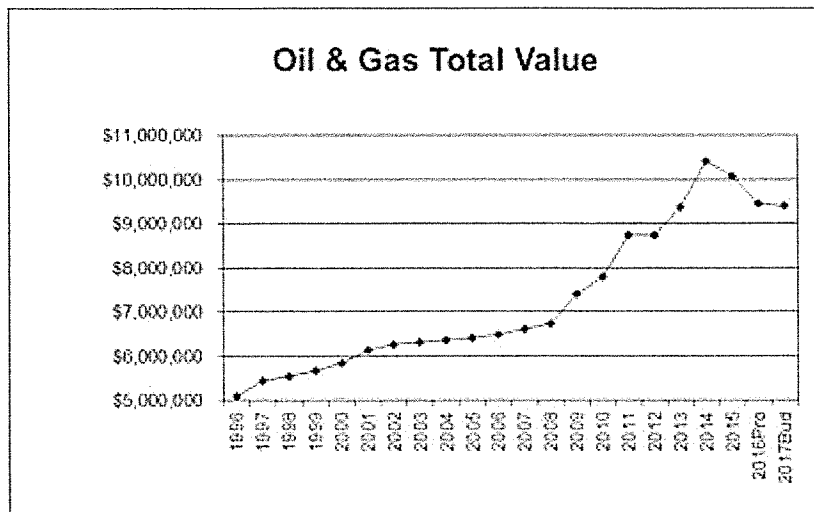
BRADFORD: The principal of the fund is comprised of accumulated oil and

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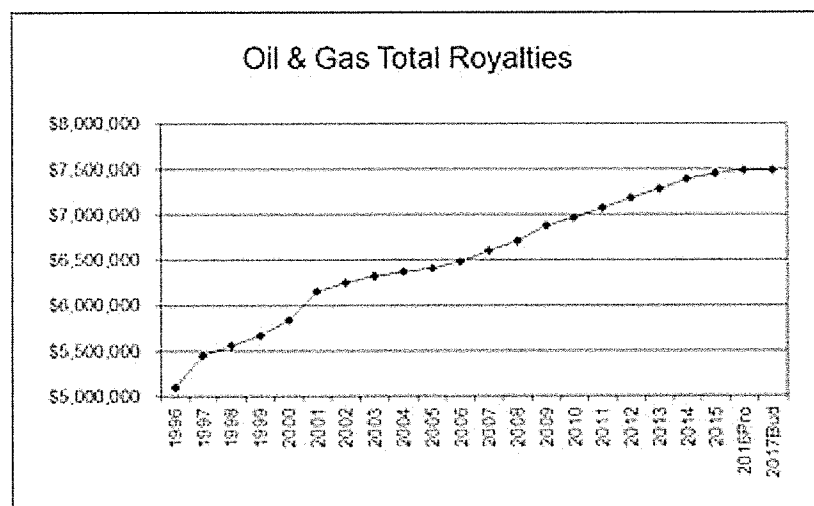
The value of the Oil and Gas Trust Fund is the sum of all of the cash and investments held in the portfolio. Since 2009, the fund has seen a significant appreciation in its value due to the positive investment environment, however, in recent years, a volatile market has reduced the portfolio's value. (Courtesy Photo/News Advocate)

lease fees and royalties.

In the most recently completed fiscal year, the city received \$55,771 in royalties. The amount of royalties received is dependent on well production and the price of oil and gas in the marketplace.

Currently, the wells are shut down due to the very low price of gas. As of June 30, 2015, the accumulated royalties in the fund were \$7,445,000.

MNA: How has the fund amount changed in recent years? One of the ways is the withdrawal of \$83,000 from the fund for road repairs in the fiscal year 2015-16 City of Manistee budget.



The principal of the Oil and Gas Trust Fund is comprised of accumulated oil and gas lease fees and royalties. As of June 30, 2015, the accumulated royalties in the fund were \$7,445,000. (Courtesy Photo/News Advocate)

BRADFORD: In addition to the royalties received, the fund receives interest

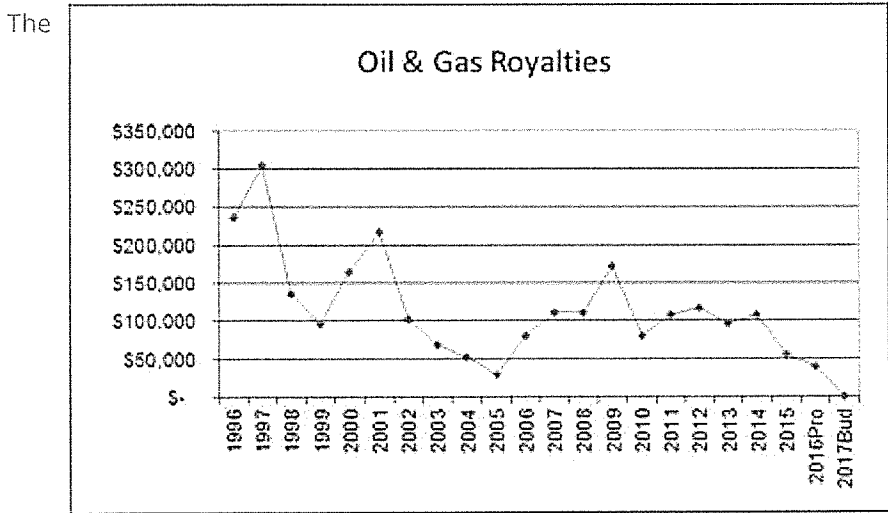
and dividends from its investments. It is also subject to realized and unrealized gains and losses on its investment portfolio. The value of the portfolio exceeds the accumulated royalties because of the favorable investment performance from 2009 to present. This larger value allows the portfolio to better support council spending priorities through the annual allocation calculated by the spending rule.

MNA: What is the oil and gas investment policy?

BRADFORD: The Oil and Gas Investment Policy and Spending Rule ("Policy") was created and adopted by the board and City Council after the state law governing eligible investments was changed.

The policy is very important. It describes how the oil and gas fund is to be invested and managed. In essence, the fund is being treated and managed like an endowment. The policy specifies several things such as board investment philosophy, investment time horizon, strategy and general performance objectives, allowable investments, asset allocation targets, duties of the investment advisor, and monitoring and review of investment advisor performance.

It also addresses how the annual spendable allocation from the fund is calculated. The Policy specifies that 4% of the three year trailing market value is available for spending each year. This percentage is consistent with the portfolio's asset allocation and expected returns and is set at a level to help ensure intergenerational equity. In other words, the spending rate is set to not exceed the real rate of return so that spending can be balanced between current and future generations.



In the most recently completed fiscal year, the City of Manistee received \$55,771 in royalties, which partly makes up the principal of the Oil and Gas Trust Fund. The amount of royalties received is dependent on well production and the price of oil and gas in the marketplace, according to Ed Bradford, Manistee chief financial officer. The wells are currently shut down due to the very low price of gas. (Courtesy Photo/News Advocate)

most recent calculation of the spending rule yields a spendable amount of

\$394,226.

The combination of the asset allocation and spending rule, coupled with expected returns on the portfolio, allows the oil and gas fund to address the dual goals of preserving the principal and purchasing power of the fund, while at the same time generating adequate returns to fund smooth and predictable distributions for current spending.

MNA: The board meets at noon on the third Tuesday of each quarter in the second floor conference room of Manistee City Hall at 70 Maple St. Its next meeting is on April 15. What are some topics the board discusses at its meetings?

BRAFORD: The board typically discusses the current state of well production and royalties; and with its investment advisor, reviews market conditions, economic conditions, portfolio performance, asset allocation, recent transactions and the like. It also calculates the annual spendable amount as prescribed in the Oil and Gas Investment Policy and Spending Rule.

MNA: Who is on the Oil and Gas Investment Board? How does someone get appointed to the board?

BRADFORD: The board is made up of five members.

It consists of Mayor Colleen Kenny (Chair), Chief Financial Officer Ed Bradford (Vice Chair), Mayor Pro-Tem Eric Gustad, Steve Brower and Doug Parkes. City Manager Thad Taylor is an ex-officio member, Cindy Lokovich is the recording secretary and City attorney George Saylor is legal counsel.

The board is appointed by the mayor with City Council approval. Terms are staggered and vacancies are advertised when they arise or a term is expiring. Individuals can then apply for a position on the board. Traditionally, appointees have had a financial background to enable them to successfully carry out their duties.

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Posted by Sean Bradley

Sean is the city and cops and courts reporter for the News Advocate, he also is in charge of the entertainment and Reasons to Celebrate pages. He can be reached at (231) 398-3109 or sbradley@pioneergroup.com.

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